

## Message Text

UNCLASSIFIED

PAGE 01 LONDON 00954 01 OF 03 221244Z

53

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SS-20 L-03 H-03 NSC-10 AID-20

CEA-02 CIAE-00 COME-00 EA-11 FRB-02 INR-10 IO-14

NEA-11 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02

LAB-06 SIL-01 OMB-01 FTC-01 JUSE-00 SSO-00 NSCE-00

INRE-00 DRC-01 /171 W

----- 046794

O R 221232Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7282

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 01 OF 03 LONDON 00954

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: FOREIGN DIRECT INVESTMENT IN USA

REF: STATE 11634

1. IN GENERAL U.S. FIRMS IN U.K. HAVE ENJOYED A FREE AND FAVORABLE CLIMATE FOR DOING BUSINESS AS HAVE BRITISH FIRMS IN U.S. HOWEVER, THE PENDING RESTRICTIVE/ DISCRIMINATORY LEGISLATION AGAINST FOREIGN FIRMS IN THE U.S. CAN SOUR OUR LONG-STANDING EXCELLENT RELATIONS WITH BRITISH WHOSE DIRECT INVESTMENTS IN THE U.S. ARE 4.5 BILLION, THE LARGEST FROM OVERSEAS. U.S. DIRECT INVESTMENT IN THE U.K. IS ABOUT TWICE AS LARGE AND IS OUR LARGEST OVERSEAS, AMOUNTING TO \$9.5 BILLION AT THE END OF 1973.

2. SPECIFIC AREAS WHERE PRESENTLY GOOD RELATIONS MIGHT BE ADVERSELY AFFECTED ARE:

A. NORTH SEA OIL: AS DEPARTMENT IS AWARE, THERE HAS UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00954 01 OF 03 221244Z

AND CONTINUES TO BE PUBLIC PRESSURE CALLING FOR A

LARGER ELEMENT OF BRITISH CONTROL AND PARTICIPATION IN THE DEVELOPMENT OF NORTH SEA OIL. IN ITS EXTREME FORM, THIS WOULD INCLUDE NATIONALISATION OF AMERICAN AND OTHER OIL COMPANIES. IN ANY CASE, IT IS GENERALLY INTERPRETED AS CALLING FOR MORE FAVORABLE TREATMENT OF UK FIRMS THAN NON-UK FIRMS BOTH IN ALLOCATING DRILLING RIGHTS AND IN AWARDING CONTRACTS FOR THE SUPPLY OF EQUIPMENT. ALTHOUGH UNDER CONSIDERABLE PRESSURE THE PRESENT BRITISH GOVERNMENT HAS RESISTED IMPLEMENTING A "BUY BRITISH" POLICY. TO STRENGTHEN ITS RESOLVE IN THIS AREA, THE EMBASSY HAS BOTH FORMALLY THROUGH A DEMARCHE AND INFORMALLY AT VARIOUS LEVELS OF HMG STRESSED THE HARMFUL FALLOUT TO US-UK RELATIONS AND TO INTERNATIONAL TRADE AND INVESTMENT THAT WOULD ENSUE FROM THE INTRODUCTION OF A POLICY WHICH DISCRIMINATES AGAINST U.S. FIRMS. WE BELIEVE THAT ANY USG LEGISLATION AIMED AT RESTRICTING THE RIGHTS OF UK INVESTMENT IN THE U.S. WOULD UNDERMINE THE VIGOROUS SUCCESSFUL REPRESENTATIONS WE HAVE MADE TO PROTECT EQUALITY OF TREATMENT FOR US FIRMS IN THE NORTH SEA DEVELOPMENT BOTH AS PROSPECTORS AND AS EQUIPMENT SUPPLIERS. (SEE EMBASSY'S A-749 OF JUNE 6, 1973 FOR EXCHANGE OF NOTES ON THIS SUBJECT). PREDOMINANT POSITION OF U.S. IN NORTH SEA OIL DEVELOPMENT PLACES POLICIES AND ACTIONS OF USG IN CENTER OF PUBLIC ATTENTION AND BRITISH GOVERNMENT NATURALLY UNDER CONSTANT POLITICAL PRESSURE TO BE ALERT TO PROVIDE ADEQUATE OPPORTUNITY FOR BRITISH FIRMS TO COMPETE ON FAIR AND EQUAL BASIS WITH U.S. FIRMS BOTH IN BRITAIN AND U.S. WITH REGARD TO LATTER POINT, ATTENTION IS CALLED TO HIGH HMG STATEMENT (LONDON 2708) LAST FEBRUARY REGARDING NEED FOR RECIPROCITY IN U.S. TREATMENT OF BRITISH OIL COMPANIES IN AWARDING LICENSES FOR EXPLORATION OFF EAST COAST OF U.S. SIMILARLY BRITISH EMBASSY IN WASHINGTON EXPRESSED HMG'S CONCERN AT IMPLICATIONS OF ALASKA OIL PIPELINE BILLS(S1081) AND HR9130) IF BUY-AMERICAN AMENDMENTS SHOULD BE ADDED. IT IS FAIR TO CONCLUDE THAT THE PRESENT GOVERNMENT HAS DONE WELL IN FORESTALLING UK PROTECTIONIST PRESSURES REGARDING NORTH SEA OPERATIONS THUS FAR AND WILL CONTINUE TO

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00954 01 OF 03 221244Z

PROVIDE FAIR TREATMENT TO US FIRMS SEEKING FUTURE LICENSING OR PROCUREMENT OPPORTUNITIES. HOWEVER, IF US NO LONGER GIVES UK COMPANIES EQUAL TREATMENT WITH US COMPANIES BRITISH WILL CERTAINLY REVIEW THEIR POLICIES TO SERIOUS DETRIMENT OF US OIL COMPANIES, US DRILLING COMPANIES AND US OIL FIELD SUPPLY FIRMS. B. "BUY BRITISH" POLICY. OTHER THAN IN THE NORTH SEA SECTOR, THERE IS A REAL RISK THAT OVERT USG DIS-

CRIMINATION AGAINST UK FIRMS WILL STRENGTHEN A "BUY  
BRITISH" POLICY THROUGHOUT GOVERNMENT DEPARTMENTS AND  
NATIONALIZED INDUSTRIES. IN THEORY AND EXCLUDING THE  
COMPUTER INDUSTRY (SEE LONDON'S A871 OF JUNE 9, 1972),  
HMG EXPECTS ITS BUYING DEPARTMENTS TO BE GUIDED BY  
COMMERCIAL CONSIDERATIONS AND TO TREAT FOREIGN FIRMS  
ON AN EQUAL FOOTING WITH DOMESTIC FIRMS. THIS  
ADMITTEDLY IS NOT ALWAYS ADHERED TO BUT OFTEN HMG  
DEPARTMENTS AND NATIONALIZED INDUSTRIES WILL, WHERE  
N/A  
ANNENBERG

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 00954 02 OF 03 221246Z

53  
ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SS-20 L-03 H-03 NSC-10 AID-20

CEA-02 CIAE-00 COME-00 EA-11 FRB-02 INR-10 IO-14

NEA-11 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02

LAB-06 SIL-01 OMB-01 FTC-01 JUSE-00 SSO-00 NSCE-00

INRE-00 DRC-01 /171 W  
----- 046803

O R 221232Z JAN 74  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 7283  
INFO USMISSION EC BRUSSELS  
USMISSION OECD PARIS

UNCLAS SECTION 02 OF 03 LONDON 00954

WARRANTED BY PRICE, QUALITY AND TECHNICAL CONSIDERATIONS,  
GO TO CONSIDERABLE LENGTHS TO INSURE THAT US FIRMS ARE  
GIVEN EQUAL TREATMENT WITH UK FIRMS (SEE LONDON A-1458  
OF DECEMBER 18, 1973). THERE ARE FOUR TRADITIONAL  
SECTORS (I.E., COMPUTERS, CIVIL AIRCRAFT, HEAVY  
ELECTRICAL ENGINEERING AND TELECOMMUNICATIONS) WHICH  
ARE PARTICULARLY SUSCEPTIBLE TO A "BUY BRITISH OR BUY  
EUROPEAN COMMUNITY" POLICY. A FIFTH AREA IS THAT OF  
ATOMIC REACTORS. BRITISH GOVERNMENT IS NOW SCHEDULED

TO DECIDE IN FEBRUARY WHETHER TO ALLOW CENTRAL ELECTRICITY GENERATING BOARD TO PURCHASE U.S. LIGHT WATER REACTORS, AS CEGB HAS RECOMMENDED, OR TO INSIST ON FURTHER DEVELOPMENT OF BRITISH AGR. ONE OF THE ARGUMENTS THAT HMG MUST DECIDE IS WHETHER OR NOT TO RELY ON FOREIGN TECHNOLOGY. DISCRIMINATORY PURCHASES IN US WOULD GREATLY STRENGTHEN OPPONENTS OF FREE INTERNATIONAL MARKET IN TECHNOLOGY, AND WOULD PRECLUDE MAJOR ORDER FOR US FIRMS. A DISCRIMINATORY USG POLICY AFFECTING ACTUAL OR POTENTIAL UK INVESTMENT IN THE US WOULD CERTAINLY STRENGTHEN THOSE FORCES SEEKING FAVORITISM  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00954 02 OF 03 221246Z

FOR UK SUPPLIERS ESPECIALLY IN THE FIVE SECTORS CITED ABOVE.

3. STRONGER POLITICAL/ECONOMIC CONTROL OVER US DIRECT INVESTMENTS IN THE UK. US DIRECT INVESTMENTS (1973-\$9.5 BILLION) ACCOUNT FOR ROUGHLY 75 PERCENT OF ALL FOREIGN INVESTMENTS HERE. IN ADDITION THEY PROVIDE EMPLOYMENT FOR APPROXIMATELY 730,000 PEOPLE. THE OPERATING RELATIONSHIP OF US FIRMS HERE WITH HMG AND THE POPULATION AT LARGE HAVE BEEN CHARACTERIZED BY RELATIVE TRANQUILITY. US FIRMS RELATIONS WITH UK TRADE UNION ARE GENERALLY BETTER THAN THOSE OF UK FIRMS. THE GENERAL UK REACTION TO CONCERNS SUCH AS THOSE VOICED IN LE DEFI AMERICAIN IS THAT HMG CAREFULLY OVERSEES THE FOREIGN INVESTMENT SITUATION BUT DOES NOT INTERVENE ONCE ITS INVESTMENT HAS BEEN MADE. SHOULD A SITUATION ARISE WHERE IT APPEARS BRITISH INTERESTS ARE NOT BEING SERVED BY THESE FOREIGN INVESTMENTS, HMG WILL TAKE APPROPRIATE STEPS TO CONTROL AND/OR REGULATE THESE INVESTMENTS. IF US LEGISLATION SHOULD DISCRIMINATE AGAINST UK INVESTORS IN THE US PRESSURE FROM ALL QUARTERS WILL BE BROUGHT TO BEAR ON HMG TO REGULATE MORE CLOSELY THE OVERALL ACTIVITIES OF SOME 2000 US FIRMS HERE IN UK. IT IS POSSIBLE THAT THE RELATIVE AUTONOMY OF MANY OF THESE FIRMS, ESPECIALLY THE LARGER ONES COULD BE SHARPLY CIRCUMSCRIBED TO THE DETRIMENT OF US INTERESTS.

4. FINANCIAL (REFTEL PARA 2B).

A. ANY RESTRICTIVE U.S. LEGISLATION WILL BE GIVEN WIDE COVERAGE IN AN ALERT, ACERBIC, AND AT TIMES BIASED FINANCIAL PRESS WHICH, IN ADDITION TO THE ECONOMIST, INCLUDES HIGHLY INFLUENTIAL MONTHLY PERIODICALS AS THE BANKER, EUROMONEY, AND INTERNATIONAL CURRENCY REVIEW. GIVEN THE REASONABLY LIBERAL POLICIES FOLLOWED BY THE BANK OF ENGLAND IN ALLOWING FOREIGN FINANCIAL INSTITUTIONS TO ESTABLISH IN LONDON,

ANY RESTRICTIVE MEASURES FROM THE U.S. AIMED ONLY AT FOREIGN INVESTORS AND FINANCIAL INSTITUTIONS WOULD BE NOTICED AND CRITICIZED. TO THE DEGREE THAT SUCH RESTRICTIONS WOULD IMPOSE NATIONAL TREATMENT (I.E., UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00954 02 OF 03 221246Z

REMOVAL OF CERTAIN COMPETITIVE ADVANTAGES IN U.S. ENJOYED BY FOREIGN INSTITUTIONS IN THE U.S. MARKET NOT AVAILABLE TO U.S. FINANCIAL INSTITUTIONS), THERE WOULD BE GRUMBLING AND CRITICISM BUT PROBABLY NO OFFICIAL REACTION.

B. LIBERALIZATION OF U.S. CAPITAL CONTROLS IS DESIGNED IN PART TO REESTABLISH ROLE OF U.S. FINANCIAL CENTERS IN INTERNATIONAL CAPITAL MARKETS. INCREASED LIKELIHOOD OF ARAB FUNDS SEEKING FINANCIAL INTERMEDIATION ALSO COULD ADD TO POSITION OF U.S. INTERNATIONAL MARKETS. RESTRICTIVE U.S. LEGISLATION ON FOREIGN BANKS AND FOREIGN PURCHASES OF U.S. SECURITIES COULD VITIATE BENEFICIAL ELEMENTS IN THESE DEVELOPMENTS, AND AT MINIMUM COULD LEAD TO CALLS FROM U.K. BANKS FOR MORE RESTRICTIONS ON U.S. BANKS' OPERATIONS IN THE UK.

C. ONE OF FREQUENTLY CITED REASONS FOR LONDON'S SUCCESS AS AN INTERNATIONAL FINANCIAL CENTER IS THE OPEN MINDED AND LIBERAL ATTITUDE OF BANK OF ENGLAND I" ALLOWING AND ENCOURAGING FOREIGN INSTITUTIONS TO ESTABLISH IN LONDON. NUMBER OF FOREIGN BANKS IN LONDON INCREASED FROM 94 IN 1963 TO 259 IN 1973; OF THESE U.S. BANKS INCREASED FROM 8 TO 53 WITH WIDE GEOGRAPHIC REPRESENTATION WITHIN U.S. IN SAME PERIOD, U.S. BANKS' N/A

ANNENBERG

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 00954 03 OF 03 221247Z

53

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SS-20 L-03 H-03 NSC-10 AID-20

CEA-02 CIAE-00 COME-00 EA-11 FRB-02 INR-10 IO-14

NEA-11 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02

LAB-06 SIL-01 OMB-01 FTC-01 JUSE-00 SSO-00 NSCE-00

INRE-00 DRC-01 /171 W

----- 046862

O R 221232Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7284

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 03 OF 03 LONDON 00954

SHARE OF STERLING ACCOUNTS INCREASED FROM 2 PERCENT TO 8 PERCENT. UK BANKS ARE ACUTELY AWARE OF THIS, WITH SOME LARGER U.S. BANKS AGGRESSIVELY OPENING BRANCHES IN MAJOR U.K. CITIES OUTSIDE OF LONDON.

D. U.K. AUTHORITIES HAVE AMPLE SCOPE TO INTRODUCE BITING RESTRAINTS ON U.S. BANKING ACTIVITIES IN STERLING (I.E., DOMESTIC UK) MARKET SHOULD THEY BE GOADED INTO IT. CLEARLY, THEY WOULD PREFER NOT TO BE FORCED TO CONSIDER SUCH MOVES. HOWEVER, SHOULD PATMAN BILL FORCE DIVESTITURE BY MAJOR U.K. CLEARING BANKS OF U.S. SUBS AND BRANCHES, THESE UK BANKS WOULD WITHOUT QUESTION COMPLAIN BITTERLY AND LOOK MUCH MORE CLOSELY AT COMPETITIVE IMPACT OF U.S. BRANCHES OPERATING IN THEIR OWN BACK YARD, AND COULD BE EXPECTED TO CAPITALIZE ON SUCH BAD FEELINGS AS WOULD BE ENGENDERED TO ARGUE IN INTERNATIONAL BANKING FRATERNITY THAT ATMOSPHERE IN U.S. IS NOT CONDUCIVE TO REESTABLISHMENT OF MAJOR INTERNATIONAL FINANCIAL MARKET.

E. MORE DETAILS AND BACKGROUND TO OUR ASSESSMENT ARE IN LONDON A-05, THE EFFECT OF REMOVING U.S. CAPITAL UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00954 03 OF 03 221247Z

CONTROLS' THE VIEW FROM LONDON, JANUARY 3, 1974 AND

-----

A-1229, IBRO REPORT ON THE FUTURE OF LONDON AN INTERNATIONAL FINANCIAL CENTER, OCTOBER 9, 1973.

F. THE GENERAL ATTITUDE IN U.K. FINANCIAL CIRCLES TOWARDS THE U.S. RANGES FROM CAUTIOUS TO STRAINED. UK FINANCIAL INSTITUTIONS ARE FOLLOWING THE RESTRICTIVE LEGISLATION MENTIONED IN THE REF CABLE VERY CAREFULLY. THEY ARE AWARE THAT U.S. BANKS, AT LEAST IN THEORY, CAN OPEN BRANCHES ANYWHERE IN ENGLAND. UK BANKS, ON THE OTHER HAND, ARE LEGALLY ENJOINED FROM DOING SO IN A MAJORITY OF U.S. STATES BECAUSE OF STATE LAWS. THE ACTUAL IMPACT ON THEIR OPERATIONS MAY BE SMALL,

BUT UK BANKS CITE THIS AS AN EXISTING ELEMENT OF DIS-CRIMINATION. THE OUTCOME OF THE RECENT SUCCESSFUL AND UNSUCCESSFUL BIDS BY BARCLAYS AND LLOYDS WERE WIDELY COMMENTED ON IN FINANCIAL CIRCLES AND THE PRESS AS EVIDENCE OF AN AMBIVALENT, ALTHOUGH ON BALANCE POSITIVE ATTITUDE ON THE PART OF U.S. AUTHORITIES TOWARDS FOREIGN INSTITUTIONS. THE PUBLICITY ENGENDERED BY THE FAILURE OF THE U.S.N.B. SAN DIEGO HAS ON BALANCE BEEN NEGATIVE TOWARDS THE U.S. SOME OBSERVERS HERE WONDER ALOUD IF THERE IS AN INCONSISTENCY BETWEEN AIMS OF WANTING TO DEVELOP THE U.S. ROLE ON AN INTERNATIONAL FINANCIAL CENTER AND RESTRICTIVE LEGISLATION AIMED AT FOREIGN FINANCIAL ACTIVITIES IN THE U.S.  
ANNENBERG

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INVESTMENT LAW, PETROLEUM INDUSTRY, ENERGY, ECONOMIC CONDITIONS, FOREIGN INVESTMENTS, FOREIGN INVESTMENT CONTROLS, EXPLORATORY DRILLING, BUSINESS FIRMS, OIL FIELDS, BANKS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 JAN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LONDON00954  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740125/aaaaaxe.tel  
**Line Count:** 345  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** STATE 11634  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 FEB 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 FEB 2002 by elbezefj>; APPROVED <29 MAY 2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FOREIGN DIRECT INVESTMENT IN USA  
**TAGS:** EFIN, ENRG, US, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005